

Presentation Material of Financial Results for the Third Quarter of FY2024 (from January 1, 2024 to September 30, 2024)

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DENTSU SOKEN INC.

October 31, 2024



INDEX

- 01 Outline of financial results for the 3Q of FY2024
- 02 Forecasts for FY2024
- 03 Next Medium-Term Management Plan

INDEX

- | 01** Outline of financial results for the 3Q of FY2024
- 02 Forecasts for FY2024
- 03 Next Medium-Term Management Plan

Summary of the Third Quarter of FY2024

Net sales

Despite **+6.6% YoY** due to the expansion of Financial and Manufacturing Solutions, the progress rate against the full-year plan is **72.4%**, **-1.4p YoY**.

Operating profit

-7.0% YoY due to the significant increase in SG&A expenses mainly due to personnel expenses. The progress rate against the full-year plan also worsened significantly to **64.3%**, **-9.7p YoY**.

Orders

Orders received during the 3Q (July-September) increased by **7.8% YoY**, mainly in Business Solutions. However, it did not meet the net sales growth expectations for the second half of the fiscal year of **+11.0%**.

Full-year forecast

Based on these trends, we have revised our full-year forecast downward but have maintained our dividend forecast. **Net sales: ¥155 billion > ¥152 billion (-1.9%)**, **Operating profit: ¥22.5 billion > ¥20.0 billion (-11.1%)**

Consolidated Results for the Third Quarter of FY2024

(Unit: millions of yen)

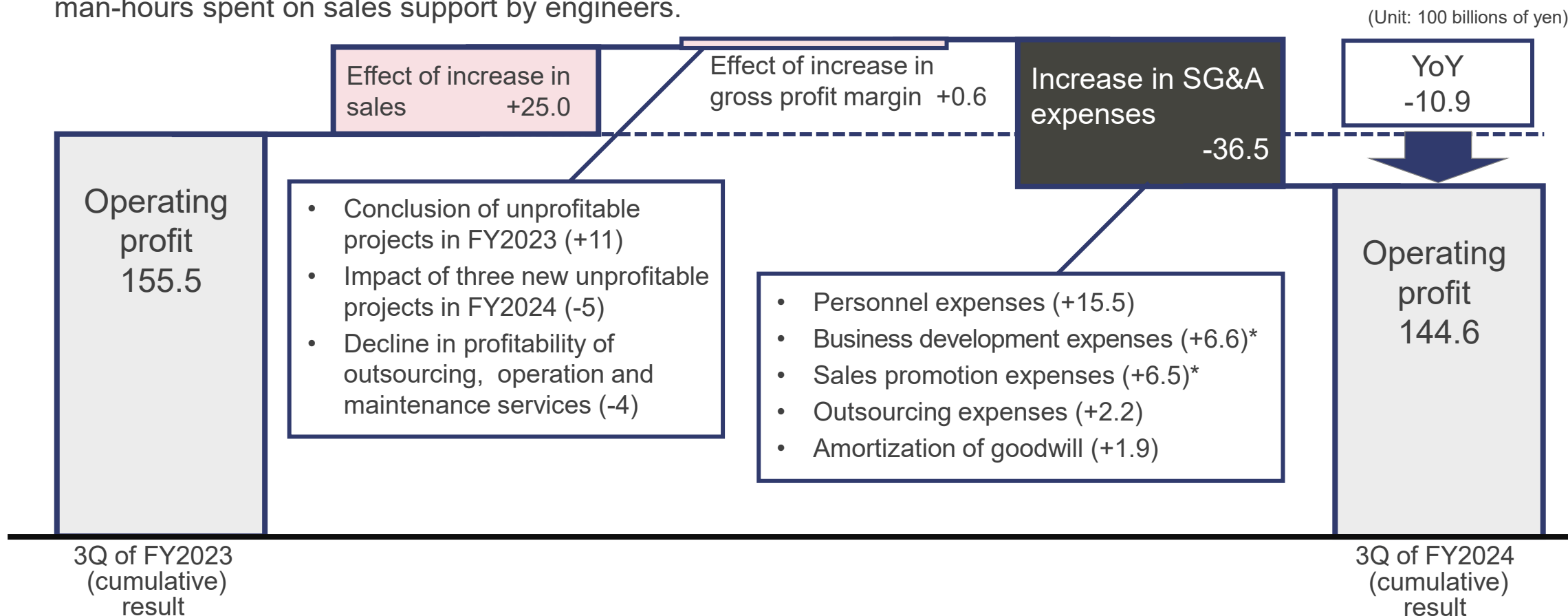
	3Q of FY2024 (cumulative)	YoY			percentage of progress%**	
		3Q of FY2023 (cumulative)	Variance	% change	3Q of FY2024 (cumulative)	3Q of FY2023 (cumulative)
Net sales	112,231	105,267	+6,964	+6.6	72.4	73.8
Gross profit	40,424	37,859	+2,565	+6.8	-	-
Gross profit margin (%)	36.0	36.0	+0.0p	-	-	-
Selling, general and administrative expenses	25,961	22,307	+3,654	+16.4	-	-
Operating profit	14,463	15,551	-1,088	-7.0	64.3	74.0
Operating margin (%)	12.9	14.8	-1.9p	-	-	-
Ordinary profit	14,413	15,695	-1,282	-8.2	64.1	73.9
Profit attributable to owners of parent	10,074	10,838	-764	-7.0	64.2	73.9
Number of employees (people)*	4,400	3,621	+779	+21.5		

* At the end of the third quarter

**FY2024: Against the forecast announced on July 24, 2024. FY2023: Against the results of FY2023.

Factors for Increase/Decrease in Operating Profit (YoY)

- Despite the effect of increased net sales and improved gross profit margin, operating profit declined as the expansion of SG&A expenses exceeded these effects.
- The gross profit margin remained almost the same as FY2023 due to the conclusion of unprofitable projects in FY2023, as well as the occurrence of new unprofitable projects in FY2024.
- The increase in SG&A expenses was due to an increase in personnel, raised base salaries, and an increase in the man-hours spent on sales support by engineers.



Non-operating Income/Expenses and Extraordinary Income/Losses

- In addition to the recording of equity method investment losses, non-operating income/expenses deteriorated due to the posting of foreign exchange losses, etc.
- In addition to the recording of gains on the sale of investment securities, extraordinary income/losses improved due to a decrease in losses on the valuation of investment securities.

(Unit: millions of yen)

	3Q of FY2024 (cumulative)	YoY		
		3Q of FY2023 (cumulative)	Variance	% change
Operating profit	14,463	15,551	-1,088	-7.0
Non-operating income	199	180	+19	+10.5
Non-operating expenses	248	35	+213	+596.4
Ordinary profit	14,413	15,695	-1,282	-8.2
Extraordinary income	320	135	+185	+136.4
Extraordinary losses	25	377	-352	-93.2
Profit before income taxes	14,709	15,453	-744	-4.8
Total income taxes	4,634	4,614	+20	+0.4
Profit attributable to non-controlling interests	-	1	-1	-
Profit attributable to owners of parent	10,074	10,838	-764	-7.0

Net Sales and Operating Profit by Reportable Segment

(Unit: millions of yen)

Reportable Segment		3Q of FY2024 (cumulative)	YoY		
			Variance	% change	Overview
Financial Solutions	Net sales	24,021	+1,439	+6.4	Net sales and operating profit increased due to expanded sales and implementation of third-party software in the accounting area to the banking industry, as well as increased sales and installations of "Lamp" to the leasing industry.
	Operating profit	2,707	+130	+5.0	
	%	11.3	-0.1p	-	
Business Solutions	Net sales	17,137	-329	-1.9	Net sales decreased due to the peak out of several projects in the human resources and accounting areas. Profit also decreased due to a significant increase in personnel expenses in line with strategic personnel allocation, in addition to the impact of reduced sales.
	Operating profit	3,793	-778	-17.0	
	%	22.1	-4.1p	-	
Manufacturing Solutions	Net sales	34,536	+4,717	+15.8	Net sales and operating profit increased due to the expansion of consulting to support system grand design and engineering, as well as sales and implementation of "Teamcenter" mainly to the transportation equipment and electric and precision instruments industries.
	Operating profit	3,616	+157	+4.5	
	%	10.5	-1.1p	-	
Communication IT	Net sales	36,535	+1,137	+3.2	Net sales increased due to the expanded implementation of SAP solutions mainly to the machinery industry. Profit decreased due to an increase in personnel expenses, the burden of goodwill amortization, and the impact of a project that was unprofitable in FY2023 continuing at a low profit level.
	Operating profit	4,345	-597	-12.1	
	%	11.9	-2.1p	-	

* Lamp: Management System for Leasing and Finance Operations, Teamcenter: product lifecycle management solution

Ref. Consolidated Financial Results for the 3Q of 2024(July-September)

Consolidated Financial Results

(Unit: millions of yen)

	3Q of FY2024 (Jul.-Sep.)	3Q of FY2023 (Jul.-Sep.)	YoY	
			Variance	% change
Net sales	37,995	35,417	+2,578	+7.3
Gross profit	13,348	12,296	+1,052	+8.6
%	35.1	34.7	+0.4p	-
SG & A expenses	9,245	7,397	+1,848	+25.0
Operating profit	4,103	4,898	-795	-16.2
%	10.8	13.8	-3.0p	-

by Reportable Segment

(Unit: millions of yen)

Reportable Segment		3Q of FY2024 (Jul.-Sep.)	YoY	
			Variance	% change
Finance Solutions	Net sales	7,912	+51	+0.6
	Operating profit	866	-294	-25.3
	%	10.9	-3.9p	-
Business Solutions	Net sales	5,419	-393	-6.8
	Operating profit	1,012	-406	-28.6
	%	18.7	-5.7p	-
Manufacturing Solutions	Net sales	11,842	+1,819	+18.1
	Operating profit	889	-398	-30.9
	%	7.5	-5.3p	-
Communication IT	Net sales	12,821	+1,102	+9.4
	Operating profit	1,334	+303	+29.4
	%	10.4	+1.6p	-

Net Sales by Service Category and Dentsu Group companies

(Unit: millions of yen)

Service category	3Q of FY2024 (cumulative)	YoY	
		Variance	% change
Consulting Services	7,472	+1,448	+24.0
Custom System Development	22,616	-643	-2.8
In-house Software	22,094	-499	-2.2
Third-party Software	40,566	+5,215	+14.8
Outsourcing, Operation and Maintenance Services	13,402	+962	+7.7
IT Equipment Sales and Others	6,079	+482	+8.6

Counterparty	3Q of FY2024 (cumulative)	YoY	
		Variance	% change
Dentsu Group Inc. and its subsidiaries	15,754	-762	-4.6

Net Sales by Industry

(Unit: millions of yen)

Industry		3Q of FY2024 (cumulative)		YoY	
		Net sales	Composition ratio (%)	Variance	% change
	Banks	17,017	15.2	+525	+3.2
	Other financial institutions	6,569	5.8	+1,384	+26.7
	Financial	23,586	21.0	+1,909	+8.8
	Transportation equipment	20,028	17.8	+3,629	+22.1
	Electric appliances Precision instruments	12,413	11.1	+1,154	+10.2
	Machinery	8,335	7.4	+543	+7.0
	Other products	8,108	7.2	-951	-10.5
	Manufacturing	48,885	43.5	+4,375	+9.8
	Services and public offices	30,365	27.1	+519	+1.7
	Distributions and others	9,393	8.4	+161	+1.7

* As we reviewed some of our client industries, we used reclassified figures for comparison with the same period last year.

Orders Received and Order Backlog

(Unit: millions of yen)

		Orders received				Order backlog	
		3Q of FY2024 (Jul.-Sep.)	YoY % change	3Q of FY2024 (cumulative)	YoY % change	End of 3Q of FY2024	YoY % change
Total		35,175	+7.8	122,527	+8.5	64,781	+9.2
Reportable segment	Financial Solutions	6,909	-17.5	24,082	+1.9	8,311	-5.8
	Business Solutions	5,206	+28.3	17,420	+11.4	8,271	-1.5
	Manufacturing Solutions	12,136	+8.4	39,733	+7.9	28,312	+12.8
	Communication IT	10,922	+21.6	41,289	+11.9	19,886	+16.8
Service category	Consulting Services	3,118	+71.3	8,676	+33.9	2,582	+79.3
	Custom System Development	7,096	+0.6	23,319	+5.7	5,889	+2.2
	In-house Software	5,779	+13.5	21,822	+4.7	10,499	-4.2
	Third-party Software	12,880	-9.5	47,143	+8.9	33,966	+12.9
	Outsourcing, Operation and Maintenance Services	4,860	+81.4	15,701	+12.0	6,555	+28.7
	IT Equipment Sales and Others	1,441	-17.3	5,863	-6.0	5,286	-11.7

INDEX

01 Outline of financial results for the 3Q of FY2024

| 02 Forecasts for FY2024

03 Next Medium-Term Management Plan

Note:

Forecasts of business results in this document are based on judgments and assumptions made in light of industry trends, customer conditions, and other information currently available, and are not intended as a guarantee that they will be achieved. Actual results may differ from these forecasts due to uncertainties inherent in forecasts, changes in internal and external conditions, and other factors.

Forecasts for FY2024

- Based on recent performance trends, we have revised downward our full-year consolidated financial forecast, while maintaining our dividend forecast.

Net Sales: In addition to weak progress in the third quarter, the level of orders received was also below expectations.

Profit: In addition to the assumed lower gross profit margin due to the occurrence of unprofitable projects, further strengthening of sales activities is expected to lead to an increase in sales promotion expenses and other costs.

(Unit: millions of yen)

	Previous Forecast (Announced on July 24, 2024)	Revised Forecast (Announced on October 31, 2024)	Vs. Previous forecast		YoY		
			Variance	% change	FY2023	Variance	% change
Net sales	155,000	152,000	-3,000	-1.9	142,608	+9,392	+6.6
Operating profit	22,500	20,000	-2,500	-11.1	21,028	-1,028	-4.9
Operating margin (%)	14.5	13.2	-1.3p	-	14.7	-1.5p	-
Ordinary profit	22,500	20,000	-2,500	-11.1	21,244	-1,244	-5.9
Profit attributable to owners of parent	15,700	14,000	-1,700	-10.8	14,663	-663	-4.5

Net Sales Forecasts for FY2024 by Reportable segment

(Unit: millions of yen)

Reportable segment	Previous Forecast (Announced on July 24, 2024)	Revised Forecast (Announced on October 31, 2024)	Vs. Previous forecast		YoY		
			Variance	% change	FY2023	Variance	% change
Financial Solutions	33,000	32,000	-1,000	-3.0	30,598	+1,402	+4.6
Business Solutions	25,000	23,000	-2,000	-8.0	23,107	-107	-0.5
Manufacturing Solutions	45,000	47,000	+2,000	+4.4	41,118	+5,882	+14.3
Communication IT	52,000	50,000	-2,000	-3.8	47,784	+2,216	+4.6
Total	155,000	152,000	-3,000	-1.9	142,608	+9,392	+6.6

Net Sales Forecasts for FY2024 by service category

(Unit: millions of yen)

Service category	Previous Forecast (Announced on July 24, 2024)	Revised Forecast (Announced on October 31, 2024)	Vs. Previous forecast		YoY		
			Variance	% change	FY2023	Variance	% change
Consulting Services	9,500	10,500	+1,000	+10.5	8,611	+1,889	+21.9
Custom System Development	34,000	30,000	-4,000	-11.8	30,913	-913	-3.0
In-house Software	34,000	30,000	-4,000	-11.8	30,237	-237	-0.8
Third-party Software	53,000	55,000	+2,000	+3.8	48,184	+6,816	+14.1
Outsourcing, Operation and Maintenance Services	17,000	18,500	+1,500	+8.8	17,108	+1,392	+8.1
IT Equipment Sales and Others	7,500	8,000	+500	+6.7	7,553	+447	+5.9
Total	155,000	152,000	-3,000	-1.9	142,608	+9,392	+6.6

Ref. Forecasts for the Fourth Quarter of FY2024

(Unit: millions of yen)

	Revised Forecasts 4Q of FY2024 (Announced on October 31, 2024)	YoY		
		4Q of FY2023 (Oct.-Dec.)	Variance	% change
Net sales	39,769	37,340	+2,429	+6.5
Operating profit	5,537	5,477	+60	+1.1
Operating margin (%)	13.9	14.7	-0.8p	-
Ordinary profit	5,587	5,548	+39	+0.7
Profit attributable to owners of parent	3,926	3,825	+101	+2.6

Ref. Net Sales Forecasts for the Fourth Quarter of FY2024 by Reportable segment / by Service category

by Reportable segment

(Unit: millions of yen)

Reportable segment	Revised Forecasts 4Q of FY2024 (Announced on October 31, 2024)	YoY	
		Variance	% change
Financial Solutions	7,979	-36	-0.4
Business Solutions	5,863	+222	+3.9
Manufacturing Solutions	12,464	+1,166	+10.3
Communication IT	13,465	+1,079	+8.7
Total	39,769	+2,429	+6.5

by Service category

(Unit: millions of yen)

Service category	Revised Forecasts 4Q of FY2024 (Announced on October 31, 2024)	YoY	
		Variance	% change
Consulting Services	3,028	+442	+17.1
Custom System Development	7,384	-269	-3.5
In-house Software	7,906	+262	+3.4
Third-party Software	14,434	+1,601	+12.5
Outsourcing, Operation and Maintenance Services	5,098	+431	+9.2
IT Equipment Sales and Others	1,921	-34	-1.7
Total	39,769	+2,429	+6.5

INDEX

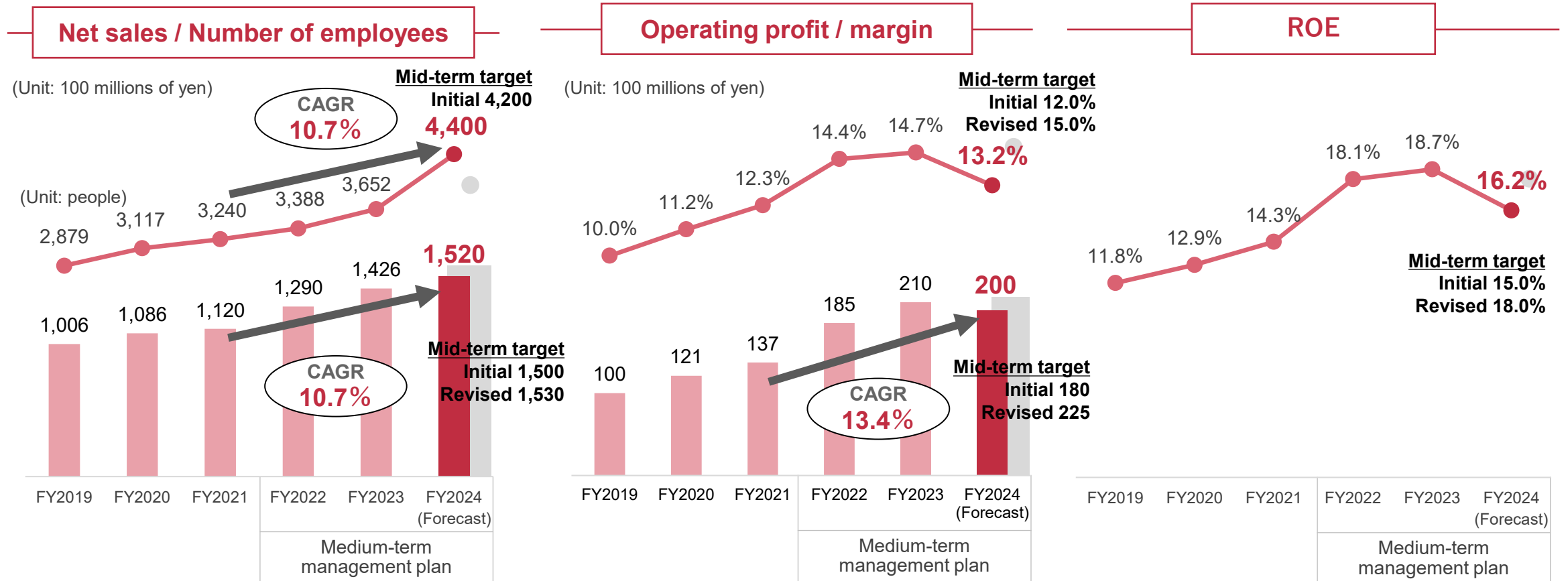
01 Outline of financial results for the 3Q of FY2024

02 Forecasts for FY2024

| 03 Next Medium-Term Management Plan

Current Medium-Term Management Plan Progress (as of October 2024)

- Net sales, operating profit, operating margin, ROE, and the number of employees are all expected to meet the initially set targets.
- However, the new target, which was revised upward to 2023 in response to strong performance, is not expected to be met due to the lack of sufficient projects to be acquired.



Current Medium-Term Management Plan Progress (as of October 2024)

Status of Major Measures

Implementation of company name change, improvement of treatment, and various HR policies
- Achieving a significant personnel growth and the development of a human resource base for high growth by improving recruiting capabilities.

Integration of consulting functions and strengthening of think tank functions
- Expanding capabilities and promoting business through collaboration with system integration (SI) to become a "Contributing to progress in society" company

Implementation of M&A
- Complementing one of the key functions and paving the way for external growth

Toward the Next Medium-Term Management Plan Key Points

- We have developed a foundation for growth in terms of both “Diverse Professionals” and “Technological Implementation Capabilities (proprietary solutions).” We will further strengthen that in the next medium-term management plan .
- In order to quickly recover the pace of growth, we focus on enhancing our “order acquisition capability” and “resource allocation efficiency”.

Next Medium-Term Management Plan (2025-2027) Outline

Mid-term Management Plan Slogan

Contributing to progress in society by strengthening and utilizing our capabilities to support the activities of businesses

Quantitative Targets (FY2027)

Net sales	210 billion yen	Operating margin	15.0%
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*Both targets do not include new M&A.

*Other quantitative targets, key KPIs, and investment targets will be set after the results for FY2024 are confirmed.

Next Medium-Term Management Plan (2025-2027) 7 Priority Measures

Integration of Sales Organizations

- Strengthen account sales to address complicated corporate issues
- Strengthen solution sales, which are responsible for planning and selling in-house and third-party software
- Expand partner sales as a software manufacturer



Integration of Technical Organizations

- Strengthen our capability to handle high-difficulty, large-scale projects through flexible assignment
- Improve project quality and accelerate PM training by sharing know-how
- Concentrate allocation of personnel to growth areas



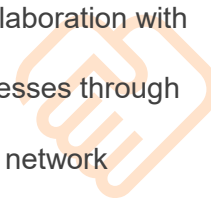
Utilization of Cutting-Edge Technology

- Strengthen competitiveness by utilizing generative AI and other technologies
- Apply solutions to social issues



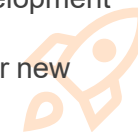
Promotion of External Collaboration

- Develop and promote businesses in collaboration with Dentsu Group companies
- Strengthen functions and acquire businesses through external collaboration and M&A
- Strengthen think tanks utilizing external network collaboration



Enhancement of Proprietary Solutions

- Improve competitive advantage
- Expand and accelerate product development investment
- Establish dedicated organizations for new business development



Reform of Management Base

- Advance business management
- Improve productivity through internal DX
- Strengthen sustainability



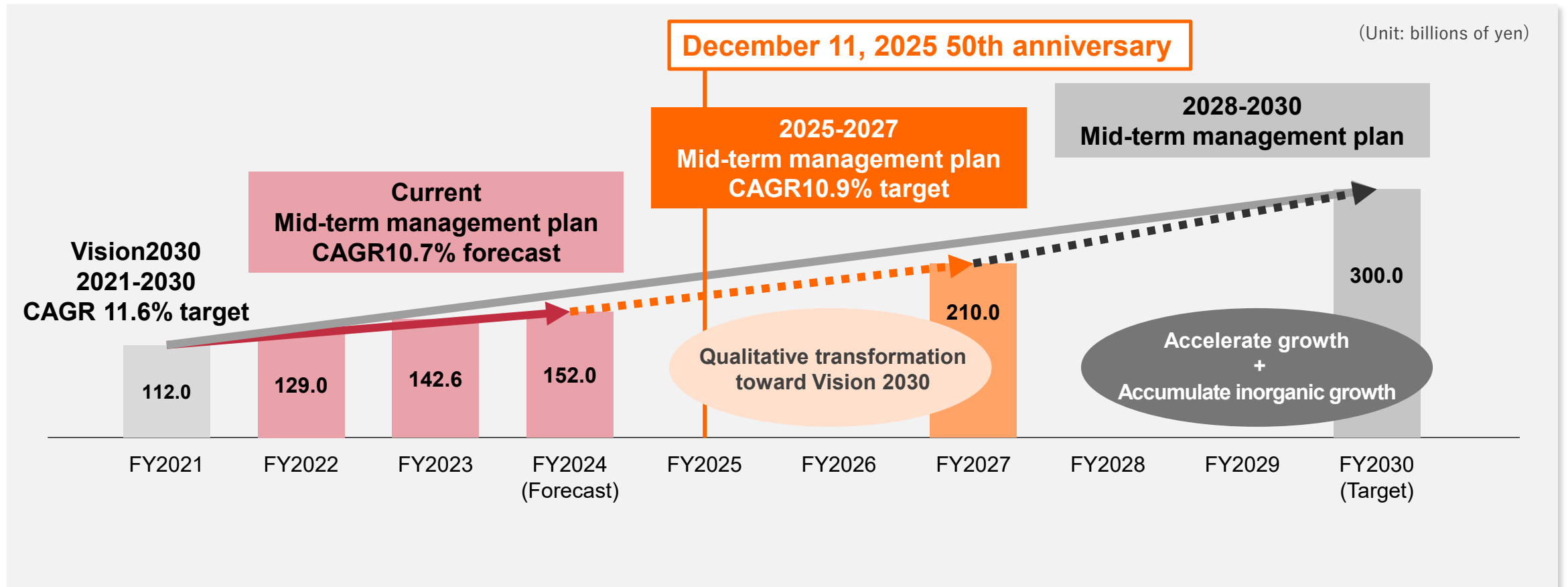
Enhancement of Human Resources

- Continuously leverage enhanced recruitment capabilities
- Enhance education to rapidly develop talent and improve competitiveness



Positioning of the Next Medium-Term Management Plan (2025-2027)

- The goal of the next mid-term management plan is to become a company with net sales exceeding 300 billion yen by 2030.
- Aiming for a qualitative transformation, starting with the 50th anniversary in 2025.





電通総研

DENTSU SOKEN INC.